

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE CENTREX AND ESSX-1 CUSTOMER)
ACCESS LINE CHARGE CREDITS AND)
SURCHARGES TARIFF FILING OF SOUTH) CASE NO. 9076
CENTRAL BELL TELEPHONE COMPANY)

O R D E R

Introduction

On May 23, 1984, South Central Bell Telephone Company ("SCB") filed a tariff with the Commission to establish Customer Access Line Charge ("CALC") credits and surcharges for Centrex and ESSX-1 service. The tariff was filed with an effective date of May 25, 1984, and designed to equalize Private Branch Exchange ("PBX") and Centrex and ESSX-1 CALCs.

On June 13, 1984, the Commission suspended the tariff filing for investigation and hearing pursuant to the provisions of KRS 278.190.

Discussion

SCB's tariff filing has its origin in various Orders of the Federal Communications Commission ("FCC") in CC Docket No. 78-72, Message Telecommunications Service and Wide Area Telecommunications Service. In its Access Charge Order of December 22, 1982, the FCC established CALC rules for residence and business customers. SCB and other parties petitioned the FCC to clarify the Access Charge Order and modify the CALC rules in the cases of

Centrex and ESSX-1 service. In its Reconsideration Order of July 27, 1983, the FCC refused to modify the CALC rules, but did grant relief to Centrex and ESSX-1 service installed before July 27, 1983, through the application of the residence CALC to Centrex and ESSX-1 service, pending further study by the Federal-State Joint Board of Centrex and ESSX-1 issues. SCB and other parties again petitioned the FCC to clarify the Reconsideration Order and modify CALC rules in the cases of Centrex and ESSX-1 service. In its Further Reconsideration Order of February 3, 1984, the FCC again refused to modify the CALC rules, and also refused to grant additional relief to Centrex and ESSX-1 service. Subsequently, Centrex and ESSX-1 CALCs became effective on May 25, 1984.

The FCC's Access Charge Order treated Centrex and ESSX-1 lines the same as individual business lines and PBX trunks. SCB and other parties, including this Commission, contended that the Centrex CALC should be based on PBX trunk equivalents and that the ESSX-1 CALC should be based on Network Access Registers ("NAR"), rather than the actual number of central office connected Centrex and ESSX-1 lines. The FCC rejected both the trunk equivalency and NAR approaches to Centrex and ESSX-1 CALCs, based on the premise that all Centrex and ESSX-1 lines access the exchange network and cause the same cost as individual business lines and PBX trunks, and concluded that Centrex and ESSX-1 should be charged CALCs on a per line basis.

The problem posed by the FCC's action is that Centrex and ESSX-1 become substantially more expensive than analogous PBX service. Thus, the rate disparity may cause Centrex and ESSX-1

customers to migrate to PBX service, causing revenue erosion that could eventually result in rate increases to other customers and possible stranded outside plant and central office investment that the general body of ratepayers would be required to support pending any possible reuse.

The Commission is very concerned about the problems of potential Centrex and ESSX-1 revenue erosion and stranded investment. To illustrate this concern, the Commission estimates that SCB's current investment associated with Centrex and ESSX-1 in service is approximately \$2.25 million. The Commission also estimates that SCB's current annual revenue associated with Centrex and ESSX-1 in service is approximately \$2.5 million. Loss of this revenue stream alone would cause an increase in basic local exchange rates of approximately \$0.25 per month.

The effect of SCB's tariff would be to grant Centrex and ESSX-1 customers CALC credits totaling \$163,000 annually. The Commission is of the opinion that the risk of Centrex and ESSX-1 revenue erosion and stranded investment caused by the FCC's actions is sufficient reason to allow these credits.

SCB proposed that the tariff become effective on May 25, 1984, concurrent with the FCC's implementation of Centrex and ESSX-1 CALCs. KRS 278.180 (1) requires at least 20 days notice of a change in rates. However, KRS 278.180 (2) allows the Commission to authorize a rate decrease on less than 20 days notice. The effect of SCB's tariff would be a decrease in CALC charges to Centrex and ESSX-1 customers. Therefore, on its

own motion, the Commission will allow the Centrex and ESSX-1 CALC credits to be implemented effective May 25, 1984, except as discussed below. In addition, in order to effect implementation of the tariff, the Commission will grant SCB's request for a deviation under 807 KAR 5:011, Section 13, from the provisions of 807 KAR 5:011, Sections 6 and 9, which require 20 days notice of a tariff change.

The Commission's evaluation of the tariff filing reveals two limitations to the application of Centrex and ESSX-1 CALC credits. The first limits Centrex and ESSX-1 CALC credits to Centrex and ESSX-1 systems in service on or before July 27, 1983, the date of the FCC's Reconsideration Order. Since that date the FCC has made no further modifications to Centrex and ESSX-1 CALCs. SCB stated that Centrex and ESSX-1 customers ordering service on or before July 27, 1983, would have had no knowledge of the FCC's Centrex and ESSX-1 CALCs, while customers ordering Centrex and ESSX-1 systems after July 27, 1983, should have been aware of applicable CALCs. The pre-July 27, 1983, customers are those at risk to migrate to other systems. Therefore, the Commission is of the opinion that this limitation is reasonable.

The second limitation would restrict Centrex and ESSX-1 CALC credits to Centrex and ESSX-1 systems located within 1-1/2 miles of the serving central office. In its transmittal letter, SCB states that "This restriction is being imposed as the result of studies which indicate that the application of the tariff to other systems might result in a total rate for service which would

not cover the cost of service." However, SCB did not provide any such documentation. In the absence of such documentation, the Commission is of the opinion that the restriction is unreasonably discriminatory within the meaning of KRS 278.170 (1) and should not be allowed.

Findings and Orders

The Commission, having examined the tariff and being advised, is of the opinion and finds that:

1. SCB's proposed Centrex and ESSX-1 CALC credits should be approved, effective May 25, 1984, except as modified herein.

2. SCB's proposed Centrex and ESSX-1 CALC credits should be restricted to systems ordered on or before July 27, 1983.

3. SCB's proposed Centrex and ESSX-1 CALC credits should not be restricted to systems located within 1-1/2 miles of the serving central office. Instead, SCB's proposed Centrex and ESSX-1 CALC credits should apply to all systems ordered on or before July 27, 1983, notwithstanding an evidentiary showing by SCB that the proposed 1-1/2 mile restriction is not unreasonably discriminatory within the meaning of KRS 278.170 (1).

4. SCB should file with the Commission any information in its possession that it believes may persuade the Commission that the proposed 1-1/2 mile restriction on Centrex and ESSX-1 CALC credits is not unreasonably discriminatory within the meaning of KRS 278.170 (1) within 30 days of the date of this Order.

IT IS THEREFORE ORDERED that SCB's proposed Centrex and ESSX-1 CALC credits be and they hereby are approved, effective May 25, 1984, except as modified herein.

IT IS FURTHER ORDERED that SCB's proposed Centrex and ESSX-1 CALC credits be and they hereby are restricted to systems ordered on or before July 27, 1983.

IT IS FURTHER ORDERED that SCB's proposed 1-1/2 mile restriction on Centrex and ESSX-1 CALC credits be and it hereby is denied.

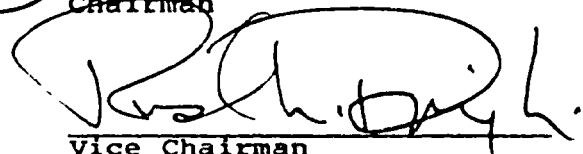
IT IS FURTHER ORDERED that SCB shall file with the Commission any information in its possession that it believes may persuade the Commission that the proposed 1-1/2 mile restriction on Centrex and ESSX-1 CALC credits is not unreasonably discriminatory within the meaning of KRS 278.170 (1) within 30 days of the date of this Order.

IT IS FURTHER ORDERED that within 30 days from the date of this Order SCB shall file with the Commission revised Centrex and ESSX-1 tariff pages stating the terms and conditions authorized in this Order.

Done at Frankfort, Kentucky, this 22nd day of June, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary